
CHROMASCO

CHROMASCO CORPORATION LIMITED*

AND SUBSIDIARY COMPANIES

ANNUAL REPORT 1971

Directors

John E. L. Duquet, Q.C.
Henry M. Marx
R. G. Nesbitt, C.A.
J. G. Notman
John A. Timmins
J. Thomas Timmins
Noé A. Timmins, Jr.

Officers

J. Thomas Timmins
President
R. G. Nesbitt, C.A.
Vice President
F. H. Curran
Vice President—Marketing
F. E. Wright
Vice President—Operations
A. J. Greenhalgh, C.A.
Treasurer
R. J. Nelson, C.A.
Secretary
T. R. Prowse
Controller

General Counsel

Duquet, MacKay, Weldon,
Bronstetter & Johnston
Advocates, Barristers & Solicitors
Montreal, Quebec

Bankers

Bank of Montreal
Renfrew, Ontario
Royal Bank of Canada
Renfrew, Ontario

Auditors

Riddell, Stead & Co.
Chartered Accountants
Montreal, Quebec

Transfer Agents

Crown Trust Company
302 Bay Street, Toronto 1, Ontario

Executive Offices

3720 Place Victoria
Montreal 115, Quebec

Annual General Meeting of Shareholders

The Annual General Meeting of the Shareholders will be held in the Board Room of the Corporation, Stock Exchange Tower, 3720 Place Victoria, Montreal, Quebec, Canada, at 12:00 noon on Friday, May 26, 1972.

*Formerly Dominion Magnesium Limited

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Directors' Report

To the Shareholders of
CHROMASCO CORPORATION LIMITED

Your Directors submit with this Annual Report of the Corporation and its subsidiary companies the consolidated balance sheet as at December 31, 1971, the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended.

The accounts of Chromium Mining & Smelting Corporation, Limited, not previously consolidated, have been included in the consolidated financial statements of the Corporation from the date of acquisition of controlling interest, November 30, 1970, and the 1970 figures have been restated. In addition, the 1970 accounts have been reclassified for purposes of comparison with the 1971 consolidated financial statements.

Earnings

Consolidated earnings for the year ended December 31, 1971 were \$407,000 or \$0.85 per share compared with a restated 1970 loss of \$75,000 or \$0.16 per share. The inclusion of the earnings of Chromium Mining & Smelting Corporation, Limited and subsidiaries for a full year in 1971 resulted in an increase in consolidated earnings of \$482,000.

While the results from the magnesium operation were disappointing, we believe that considerable progress

was made in 1971. An in-depth economic study covering all phases of this operation was carried out during the year and resulted in reduction of plant costs, improvement in product mix and elimination of marginal product lines. The efforts of your management and all plant personnel will continue to be concentrated in this area in 1972 and we are hopeful that a profitable trend can be established in the new year.

The earnings of Chromium Mining & Smelting Corporation, Limited and subsidiaries were adversely affected during the last half of 1971. Steel inventories in the United States were built up throughout the first half of 1971 as a hedge against a possible work stoppage in the steel industry. With the settlement of the steel labour contract in July such inventories had to be reduced and, as a result, steel production in the subsequent months dropped to its lowest level in several years adversely affecting the demand for ferro-alloys and, therefore, earnings. Production costs were also affected by problems encountered in the shutdown and start-up of a furnace associated with the installation of prototype air pollution control equipment.

Working Capital

Working capital at December 31, 1971 amounted to \$3,943,000 compared to a restated amount of \$5,221,000 at the end of the previous year. The decrease in working capital during the year of \$1,278,000 was

Highlights

	1971	1970
Net sales	\$27,586,000	\$10,605,000
Earnings (loss) for the year	\$ 407,000	(\$ 75,000)
Earnings (loss) per share	\$0.85	(\$0.16)
Working capital	\$ 3,943,000	\$ 5,221,000
Expenditure for property, plant and equipment	\$ 2,541,000	\$ 716,000
Common shares issued and fully paid at December 31	476,270	476,270

CHROMASCO CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

Assets

	December 31		
	1971	1970	(Restated Note 2)
Current assets			
Cash	\$ 191,000	\$ 219,000	
Accounts receivable	3,381,000	4,125,000	
Income tax recoverable	253,000	137,000	
Inventories			
Raw materials and supplies at average cost which approximates replacement value	2,516,000	2,908,000	
Work in process and finished products at lower of cost and net realizable value	7,521,000	5,315,000	
Prepaid expenses	196,000	335,000	
	<u>14,058,000</u>	<u>13,039,000</u>	
9% Note receivable from affiliated company — due February 1, 1973	<u>3,500,000</u>	<u>—</u>	

Fixed assets (Note 3)

Land, buildings and equipment at cost	25,489,000	23,273,000
Accumulated depreciation	14,547,000	13,833,000
	<u>10,942,000</u>	<u>9,440,000</u>

Signed on behalf of the Board:

J. THOMAS TIMMINS, Director

J. G. NOTMAN, Director

\$28,500,000 \$22,479,000

Liabilities

	December 31	
	1971	1970 (Restated Note 2)
Current liabilities		
Bank indebtedness (Note 4)	\$ 6,200,000	\$ 3,421,000
Accounts payable and accrued liabilities	3,176,000	3,616,000
Due to affiliated companies	541,000	472,000
Income taxes	—	184,000
Taxes other than income taxes	198,000	125,000
	<u>10,115,000</u>	<u>7,818,000</u>
Long-term debt to affiliated company		
9% promissory note — due February 1, 1973	3,500,000	—
6% loan payable — due December 29, 1975 (Note 5)	4,000,000	4,000,000
	<u>7,500,000</u>	<u>4,000,000</u>
Deferred income taxes	275,000	333,000
Minority interest		
Preference shares	3,402,000	3,515,000
Common shares	348,000	353,000
	<u>3,750,000</u>	<u>3,868,000</u>
Shareholders' equity		
Capital stock		
Authorized		
500,000 shares of no par value		
Issued		
476,270 shares	3,203,000	3,203,000
Excess of net assets of business acquired over purchase price at dates of acquisition	691,000	698,000
Retained earnings	2,966,000	2,559,000
	<u>6,860,000</u>	<u>6,460,000</u>
	<u><u>\$28,500,000</u></u>	<u><u>\$22,479,000</u></u>

CHROMASCO CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Funds

	Year ended December 31	
	1971	1970
	(Restated Note 2)	
Source of funds		
Earnings (loss) for the year	\$ 407,000	(\$ 75,000)
Non-cash items charged (credited) to earnings		
Depreciation	946,000	388,000
Disposal of fixed assets — loss	90,000	—
Deferred income taxes	(58,000)	56,000
Minority interest in earnings	280,000	23,000
Funds from operations	1,665,000	392,000
Loan from affiliated company	3,500,000	2,000,000
Working capital of consolidated subsidiary acquired		
November 1970 (Note 2)	—	3,845,000
Other	—	46,000
	5,165,000	6,283,000
Application of funds		
Investment in fixed assets	2,541,000	716,000
Loan to affiliated company	3,500,000	—
Purchase of subsidiary company (Note 2)	61,000	3,149,000
Dividends on preference shares to minority shareholders of subsidiary	341,000	—
	6,443,000	3,865,000
Working capital increase (decrease)		
Working capital — beginning of year	(1,278,000)	2,418,000
	5,221,000	2,803,000
Working capital — end of year	\$ 3,943,000	\$ 5,221,000

Notes to Consolidated Financial Statements

1. CHANGE OF NAME

By Certificate of Amendment dated August 16, 1971, the Corporation changed its name from Dominion Magnesium Limited to Chromasco Corporation Limited.

2. PRINCIPLES OF CONSOLIDATION AND STATEMENT PRESENTATION

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. In November 1970 the Corporation purchased 3,110,190 common shares (90.94%) of Chromium Mining & Smelting Corporation, Limited, a manufacturer of ferroalloys, for a cash consideration of \$3,112,000. This transaction is accounted for as a purchase acquisition and the following net assets were acquired:

Assets at book value			\$14,641,000
Liabilities at book value			(6,949,000)
Minority interest			(3,876,000)
Net assets acquired			3,816,000
Less excess of net assets acquired over purchase price at date of acquisition			704,000
Total purchase price for cash			\$ 3,112,000

In December 1970 and during 1971 the Corporation acquired a further 1.90% for \$98,000 for a total investment of \$3,210,000 in 92.84% of the outstanding common shares capital of Chromium Mining & Smelting Corporation, Limited as at December 31, 1971. These shares were purchased at premiums of \$6,000 in 1970 and \$7,000 in 1971 over the underlying book values; such amounts have been charged against the excess of net book value referred to in the previous paragraph.

The accounts of Chromium Mining & Smelting Corporation, Limited, not previously consolidated, have been included in the consolidated financial statements of the Corporation as from date of acquisition, November 30, 1970, and the 1970 figures have been restated. In addition the 1970 accounts have been reclassified for purposes of comparison with the 1971 consolidated financial statements.

The consolidated financial statements are expressed in Canadian currency. The accounts of the U.S. subsidiary have been translated into Canadian dollars as follows:

Current assets and current liabilities on the basis of one United States dollar equals one Canadian dollar;
Fixed assets and long-term debt at the rates of exchange prevailing at the dates of the acquisition or transaction;
Income and expense at the average rates for the period except for depreciation provisions which are on the same basis as the related fixed assets.

3. FIXED ASSETS AND DEPRECIATION

	December 31, 1971		December 31, 1970	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 206,000	\$ —	\$ 206,000	\$ —
Buildings and property improvements	5,588,000	2,262,000	5,345,000	2,134,000
Machinery and equipment	12,118,000	7,230,000	11,474,000	6,811,000
Mining — buildings, machinery and equipment	6,140,000	5,055,000	6,079,000	4,888,000
Construction in progress	1,437,000	—	169,000	—
	\$25,489,000	\$14,547,000	\$23,273,000	\$13,833,000

Buildings, property improvements and machinery and equipment are being depreciated over their estimated useful lives primarily on a straight-line method.

Depreciation provided for the year ended December 31, 1971 amounted to \$946,000 compared to \$388,000 for the year ended December 31, 1970.

4. BANK INDEBTEDNESS

Bank indebtedness is secured by pledge of accounts receivable and inventories.

5. 6% LOAN PAYABLE TO AFFILIATED COMPANY

A subsidiary has undertaken, if and when requested by the affiliated company, to grant by way of collateral security for repayment of the loan a first fixed and specific hypothec on the subsidiary's plant and equipment.

6. INCOME TAXES

The Corporation has a loss carry-forward for income tax purposes amounting to approximately \$80,000 as an off-set against future taxable income up to 1976. A subsidiary company has available for deduction against future taxable income, an amount of approximately \$700,000 resulting from recording in its accounts depreciation and other expenses in excess of those claimed for income tax purposes.

7. EXTRAORDINARY ITEMS

	Year ended December 31	
	1971	1970
Income tax reduction resulting from prior years' losses	\$ 370,000	\$ 35,000
Reduction in income taxes resulting from exchange loss on repayment of a note payable to a subsidiary by its U.S. subsidiary	165,000	—
Key employee retirement plan, past service costs, less related income taxes of \$113,000	—	(113,000)
	\$ 535,000	(\$ 78,000)

8. REMUNERATION — DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid or payable by the Corporation and its subsidiaries to Directors and Senior Officers (as defined by The Business Corporations Act) is as follows:

	1971	1970
Directors	\$ 10,000	\$ 2,000
Senior Officers	295,000	112,000
Aggregate direct remuneration	\$ 305,000	\$ 114,000
Number of Senior Officers who were also Directors	2	3

CHROMASCO CORPORATION LIMITED AND SUBSIDIARY COMPANIES

9. PENSION FUNDS

Pension costs charged against earnings during the year include amounts paid or payable to trust funds in respect of current and past services. The Corporation has no past service liability at December 31, 1971. Past service costs for the pension plan of a Canadian subsidiary company are being funded over periods of up to twenty-five years ending in 1990 and past service costs for the pension plans of a U.S. subsidiary company are being funded over periods of up to forty years ending in 2007. The total past service liability at December 31, 1971, as determined by independent actuaries, was estimated at approximately \$1,270,000. The unfunded past service liability of the subsidiary companies is subject to continuance of the pension plans and the terms and conditions of the pension plan agreements.

10. COMMITMENTS

A subsidiary has plans to complete, during the year 1972, the installation of air pollution control equipment estimated to cost \$4,000,000. At December 31, 1971, approximately \$1,300,000 of these costs have been incurred and capitalized and the subsidiary has signed commitments for an additional \$800,000.

Riddell, Stead & Co.

CHARTERED ACCOUNTANTS 630 Dorchester Blvd. W. Montreal 101, P.Q.

Auditors' Report

To the Shareholders
Chromasco Corporation Limited

We have examined the consolidated balance sheet of Chromasco Corporation Limited (formerly Dominion Magnesium Limited) and its subsidiary companies as at December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Chromasco Corporation Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the consolidation of a subsidiary company as outlined in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Other chartered accountants examined the consolidated financial statements for the year ended December 31, 1970. Their examination of these financial statements does not extend to the adjustments made retroactively during the current year.

Riddell, Stead & Co.
Chartered Accountants

February 18, 1972

Plants

Haley, Ontario
Reduction plant
Beauharnois, Quebec
Smelter plant

Memphis, Tennessee
Smelter and finishing plant

Principal Products**Silicon Alloys**

50% Ferrosilicon
75% Ferrosilicon

75% Ferrosilicon High Purity
85% Ferrosilicon
Sil-X

Manganese Alloys

Medium Carbon Ferromanganese
Nitrided Ferromanganese
Standard Ferromanganese

Silicomanganese
Man-X-1
Man-X-6

Chromium Alloys

Charge Grade Ferrochrome
Blocking Grade Ferrochrome

Chrom-X-4
Chrom-X-25/12.5
Chrom-Sil-X

Metals and Specialty Alloys

Magnesium Metal and Alloys
Calcium Metal and Alloys
Barium Metal
Strontium Metal

Thorium Metal
Ferrocolumbium
Dolomite
Other Specialty Alloys

Customer Service**Sales Offices**

Montreal, Quebec
3720 Place Victoria,
P.O. Box 72,
Tour de la Bourse,
Montreal 115, Quebec
Telephone (514) 866-5344

Pittsburgh, Pennsylvania
Three Parkway Center,
875 Greentree Road,
Pittsburgh, Pennsylvania 15220
Telephone (412) 921-2703

Haley, Ontario
Haley Station, Ontario
Telephone (613) 432-3621

Memphis, Tennessee
Fite Road, P.O. Box 28538,
Memphis, Tennessee 38128
Telephone (901) 357-2331

Chicago, Illinois
18301 South Halsted Street,
Glenwood Plaza,
Glenwood, Illinois 60425
Telephone (312) 785-6687

Warehouses

Beauharnois, Quebec
Haley, Ontario
Hamilton, Ontario
Sault Ste. Marie, Ontario
Birmingham, Alabama
Chicago, Illinois

Detroit, Michigan
East Liverpool, Ohio
Houston, Texas
Memphis, Tennessee
Pittsburgh, Pennsylvania

**Research and
Quality Control
Laboratories**

Haley, Ontario
Research and quality control
Beauharnois, Quebec
Quality control

Memphis, Tennessee
Research and quality control

CHROMASCO

CHROMASCO

INTERIM REPORT

TO SHAREHOLDERS

*For the Six Months Ended
June 30, 1971*

EXECUTIVE OFFICES

3720 Place Victoria
Montreal 115, Quebec

CHROMASCO CORPORATION
LIMITED

TO THE SHAREHOLDERS:

We are pleased to advise that the Ontario Department of Financial and Commercial Affairs has issued a Certificate of Amendment changing the name of Dominion Magnesium Limited to Chromasco Corporation Limited.

Unaudited consolidated net earnings of Chromasco Corporation Limited and subsidiary companies for the six months ended June 30, 1971 amounted to \$607,000 or \$1.27 per share. This compares with a net loss of \$4,000 for the same period in 1970.

The higher net earnings and working capital are mainly attributable to the inclusion in 1971 of the accounts of Chromium Mining & Smelting Corporation, Limited and its subsidiaries. Controlling interest in Chromium Mining & Smelting Corporation, Limited was acquired by your Company during the latter part of 1970.

It is anticipated that net sales and net earnings will be adversely affected during the last half of 1971 as a result of the reduction in operations currently being experienced in the U.S. steel industry.

At a Special Meeting of the Board of Directors held on July 30, 1971, Mr. J. P. Sheehan, formerly Secretary-Treasurer, was elected Executive Vice President of Chromasco Corporation Limited and subsidiary companies. Mr. A. J. Greenhalgh, formerly Assistant Secretary-Treasurer, was appointed Treasurer, Mr. R. J. Nelson was appointed Secretary, and Mr. T. R. Prowse was appointed Controller. The above changes are in line with the reorganization of the Corporation necessitated by recent corporate developments.



J. THOMAS TIMMINS
President

Montreal, Quebec
August 23, 1971.

CONSOLIDATED STATEMENT OF EARNINGS
For the six months ended June 30

NET SALES	\$15
Cost of sales, selling, administrative and general expenses	13
 EARNINGS FROM OPERATIONS before the undernoted	
Depreciation and amortization	
Interest on long-term note	
Other interest	
Employees' pension funds	
 EARNINGS (loss) before income taxes	
Income taxes	
 NET EARNINGS (loss) before minority interest	
 MINORITY INTEREST	
Preference	
Common	
 NET EARNINGS (loss) for the six months	
NET EARNINGS per share	

CHROMASCO CORPORATION LIMITED *

and subsidiary companies

INTERIM REPORT

(unaudited)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS For the six months ended June 30

<u>1971</u>	<u>1970</u>
5,338,000	\$4,347,000
3,577,000	4,164,000
1,761,000	183,000
426,000	167,000
111,000	—
166,000	—
125,000	24,000
828,000	191,000
933,000	(8,000)
143,000	(4,000)
790,000	(4,000)
114,000	—
69,000	—
183,000	—
607,000	\$ (4,000)
\$1.27	(\$0.01)

SOURCE OF FUNDS

Net earnings (loss)	\$ 607,000	\$ (4,000)
Depreciation and amortization	426,000	167,000
Minority interest in earnings	183,000	—
Funds from operations	1,216,000	163,000
Disposal of fixed assets	162,000	—
	1,378,000	163,000

APPLICATION OF FUNDS

Investment in fixed assets	1,152,000	177,000
Dividends on preference shares of subsidiary company	341,000	—
Investment in shares of subsidiary company	25,000	—
Other	29,000	(53,000)
	1,547,000	124,000
Working capital increase (decrease)	(169,000)	39,000
Working capital—beginning of year	5,567,000	3,102,000
WORKING CAPITAL—June 30	\$5,398,000	\$3,141,000

*Formerly Dominion Magnesium Limited

